



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
TE/GE EO Examinations
1100 Commerce Street
Dallas, Texas 75242

MARCH 25, 2010

Number: **201342014**
Release Date: 10/18/2013

Form:
Tax Period:

LEGEND:
ORG= Name of ORG
Address = Address of ORG
Year = xx

UIL: 501.07-01

Person to Contact:

Employee ID#:
Telephone Number:

Fax Number:

Dear :

In a determination letter dated June 1988, you were held to be exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(7) of the Code. Accordingly, your exemption from Federal income tax is revoked effective January 1, 20xx. This is a final adverse determination letter with regard to your status under section 501(c)(7) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights. On November 3, 20xx, you signed Form 6018-A, *Consent to Proposed Action*, agreeing to the revocation of your exempt status under section 501(c)(7) of the Code.

You are required to file Federal income tax returns for the tax periods shown above. If you have not yet filed these returns, please file them with the Ogden Service Center

within 60 days from the date of this letter, unless a request for an extension of time is granted, or unless an examiner's report for income tax liability was issued to you with other instructions. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the Office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal Appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free, 1-877-777-4778, and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Taxpayer Advocate Services

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

Nanette M. Downing
Acting Director, EO Examinations

Internal Revenue Service

Department of the Treasury

EO Examinations MC 4900

1100 Commerce Street

Dallas, TX 75242

Date: October 20, 2009

LEGEND:

ORG = Name of Organization

Address = Address of Organization

Year = xx

ORG

Address

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Dear ,

We have enclosed a copy of our report of examination explaining why we believe revocation of your organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process*, explains how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

You may also request that we refer this matter for technical advice as explained in Publication 892, *Exempt Organization Appeal Procedures for Unagreed Issues*. If a determination letter is issued to you based on technical advice, no further administrative appeal is available to you within the IRS on the issue that was the subject of the technical advice.

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action*. We will then send you a final letter revoking your exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Office of the Taxpayer Advocate

Telephone:

Fax:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Sunita Lough
Director, EO Examinations

Enclosures:
Publication 892
Publication 3498
Form 6018
Report of Examination
Envelope

Form 886-A (Rev. January 1994)	EXPLANATION OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended
ORG		12/31/xx & 12/31/xx

LEGEND:

ORG = Name of Organization

State = Name of State

Year = xx

Issue:

Whether ORG Club qualifies for exemption under Section 501(c)(7) of the Internal Revenue Code.

Facts:

ORG was incorporated in the State in July 19xx. The ORG Club is recognized by the Internal Revenue Service as a tax-exempt organization under 501(C)(7) effective June 19xx. The ORG Club is a 100 member social club which encourages hunting, fishing and sportsmanship among its members. The club maintains a lodge area for members to use for recreational purposes such as relaxing, fishing, hunting, and boating. Each member is required to pay a \$200 per year membership fee along with volunteering a minimum of 30 hours (or contributing the hourly assessment) toward lodge upkeep and fund-raising activities. In addition, The ORG Club sponsors the lake kids Fish Derby and a Fish Derby for handicap children. The Club uses volunteer labor to run fund-raisers such as a crab feed, steak feed, and beer booth at the County Fair and the Big Horse Classic which are open to the general public.

Upon examination it was determined that non-member gross receipts from the above activities which were open to the public exceeded 15% in 20xx, 20xx, and 20xx.

This conclusion was based on the following gross receipts obtained from The ORG Club's forms 990:

	20xx		20xx		20xx	
Member	\$1	1%	\$1	1%	\$1	1%
Non-Member	1	2	1	1	1	1
Investment	1	4	1	3	1	3

Law:

IRC § 501 (c)(7) exempts from tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder.

Treas. Reg. § 1.501(c)(7)-1 states that if a Social Club makes its social and recreational facilities available to the general public it will not qualify for tax-exempt status.

Public Law 94-568 (Senate Report No. 94-1318 2d Session, 1976-2 C.B. 597) state that it is intended that social clubs should be permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their memberships without losing their exempt status. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from non-members, so long as the latter do not represent more than 15 percent of total receipts.

Taxpayer's Position:

Discussed the determination with CPA, The ORG Club's power of attorney.

Government's Position:

Form 886-A (Rev. January 1994)	EXPLANATION OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG			12/31/xx & 12/31/xx

Based on Public Law 94-568, social clubs are only permitted to receive up to 35 percent of their gross receipts, including investment income, from sources outside of their memberships without losing their exempt status. The organization failed to qualify as a 501(c)(7) based on the fact that non-member revenues exceeded the above percentage during each of three years: 20xx non-member income % , 20xx non-member income 1%, and 20xx non-member income 4%.

Conclusion:

It is the IRS's position that the organization failed to meet the requirements regarding non-member receipts under IRC § 501(c)(7) to be recognized as exempt from federal income tax under IRC § 501(c)(7). Accordingly, the organization's exempt status is revoked effective January 1, 20xx. Form 1120 returns should be filed for the tax periods ending December 31, 20xx to the present.